

# **Manistee County Medical Care Facility**

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**Financial Report  
with Additional Information  
September 30, 2008**

# Manistee County Medical Care Facility

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## Independent Auditor's Report

To the Manistee County Department of  
Human Services Board  
Manistee County Medical Care Facility

We have audited the accompanying balance sheet of Manistee County Medical Care Facility (a component unit of Manistee County, Michigan) (the "Facility") as of September 30, 2008 and 2007 and the related statements of revenue, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Manistee County Medical Care Facility at September 30, 2008 and 2007 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the years ended September 30, 2008 and 2007. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

*Plante & Moran, PLLC*

December 10, 2008

# Manistee County Medical Care Facility

## Balance Sheet

	September 30, 2008	September 30, 2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 1)	\$ 466,658	\$ 97,915
Accounts receivable - Net (Note 4)	1,210,352	1,187,411
Other receivables	33,765	14,838
Inventory	33,079	37,498
Due from County (Note 3)	352,791	329,541
Total current assets	2,096,645	1,667,203
<b>Assets Limited as to Use</b> (Note 5)	2,200,064	2,431,531
<b>Property and Equipment - Net</b> (Note 6)	2,429,687	2,523,773
Total assets	<u><u>\$ 6,726,396</u></u>	<u><u>\$ 6,622,507</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 170,678	\$ 135,696
Resident trust liability	9,117	7,539
Estimated third-party payor settlements	195,137	195,137
Accrued liabilities and other:		
Accrued compensation and related liabilities	307,712	274,060
Accrued compensated absences	541,606	736,805
Other accrued liabilities	75,875	91,027
Total current liabilities	1,300,125	1,440,264
<b>Net Assets</b>		
Invested in capital assets - Net of related debt	2,429,687	2,523,773
Unrestricted	2,996,584	2,658,470
Total net assets	5,426,271	5,182,243
Total liabilities and net assets	<u><u>\$ 6,726,396</u></u>	<u><u>\$ 6,622,507</u></u>

# Manistee County Medical Care Facility

## Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended	
	September 30, 2008	September 30, 2007
<b>Operating Revenue</b>		
Net service revenue	\$ 8,951,046	\$ 8,711,491
Quality assurance assessment revenue	891,190	885,677
Other operating revenue	469,075	384,594
Total operating revenue	10,311,311	9,981,762
<b>Operating Expenses</b>		
Salaries	5,527,318	5,112,998
Other expenses	4,995,384	4,666,421
Total operating expenses	10,522,702	9,779,419
<b>Operating (Loss) Income</b>	(211,391)	202,343
<b>Other Income</b>	144,863	42,802
<b>Excess of Revenue (Under) Over Expenses</b>	(66,528)	245,145
<b>Transfer from County</b>	310,556	278,029
<b>Increase in Net Assets</b>	244,028	523,174
<b>Net Assets - Beginning of year</b>	5,182,243	4,659,069
<b>Net Assets - End of year</b>	<b>\$ 5,426,271</b>	<b>\$ 5,182,243</b>

# Manistee County Medical Care Facility

## Statement of Cash Flows

	Year Ended September 30	
	2008	2007
<b>Cash Flows from Operating Activities</b>		
Cash received from residents and third-party payors	\$ 9,830,715	\$ 9,258,937
Cash paid to employees and suppliers	(10,445,654)	(9,388,488)
Other operating receipts	469,075	384,594
Net cash (used in) provided by operating activities	(145,864)	255,043
<b>Cash Flows from Noncapital Financing Activities</b>		
Resident trust deposits (withdrawals)	1,578	(781)
Transfer from County	287,306	201,291
Net cash provided by noncapital financing activities	288,884	200,510
<b>Cash Flows from Investing Activities</b>		
Purchase (sale) of assets limited as to use	231,467	(813,052)
Interest received	144,863	42,802
Net cash provided by (used in) investing activities	376,330	(770,250)
<b>Cash Flows from Capital Financing Activities - Purchase of property and equipment</b>	(150,607)	(243,685)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	368,743	(558,382)
<b>Cash and Cash Equivalents - Beginning of year</b>	97,915	656,297
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 466,658</b>	<b>\$ 97,915</b>
<b>Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities</b>		
Operating (loss) income	\$ (211,391)	\$ 202,343
Adjustments to reconcile operating (loss) income to net cash from operating activities:		
Depreciation	244,693	234,290
Provision for bad debts	6,503	57,627
Changes in assets and liabilities:		
Accounts receivable	(29,444)	(364,203)
Other receivables	(18,927)	(7,192)
Inventories	4,419	34,483
Accounts payable	34,982	(18,929)
Other accrued expenses	(176,699)	141,087
Third-party settlements	-	(24,463)
Net cash (used in) provided by operating activities	<b>\$ (145,864)</b>	<b>\$ 255,043</b>

There were no significant noncash activities during the years ended September 30, 2008 and 2007.

See Notes to Financial Statements.

# Manistee County Medical Care Facility

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## Notes to Financial Statements September 30, 2008 and 2007

### **Note I - Nature of Business and Significant Accounting Policies**

Manistee County Medical Care Facility (the "Facility") is a component unit of the County of Manistee (the "County").

The Facility is a 122-bed, long-term medical care unit owned and operated by Manistee County. It is governed by the Manistee County Department of Human Services Board. The board consists of three members, two of whom are appointed by the Manistee County Board of Commissioners and one of whom is appointed by the Michigan governor. Further, the Manistee County Department of Human Services Board approves the budget for the Facility and submits a copy to the Manistee County Board of Commissioners.

The accounting policies of the Facility conform to accounting principles generally accepted in the United States of America as applicable to local governmental units. Because the Facility provides a service to citizens that is financed primarily by a user charge, the Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

**Basis of Presentation** - The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June 1999. The Facility follows the business-type activities reporting requirements of GASB Statement No. 34, which provides a comprehensive look at the Facility's financial activities.

**Enterprise Fund Accounting** - The Facility uses Enterprise Fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Facility has elected to not apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB).

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** - Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

# Manistee County Medical Care Facility

## Notes to Financial Statements September 30, 2008 and 2007

### Note I - Nature of Business and Significant Accounting Policies (Continued)

**Assets Limited as to Use** - Assets limited as to use primarily include assets set aside by the Manistee County Department of Human Services Board (the "Board") for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes.

**Property and Equipment** - All property and equipment purchases are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation on such fixed assets is charged as an expense on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

**Resident Trust Liability** - The Michigan Department of Treasury requires facilities to administer and account for monies of residents. The resident trust liability on the balance sheet represents patient trust fund deposits.

**Compensated Absences** - Sick and vacation pay is charged to operations when earned. Unused benefits are recorded as a current liability in the financial statements. During 2008, a policy change occurred to limit the amount of hours carried over from year to year based on anniversary date. Employees with hours that exceeded this limit are to be paid out the difference as their anniversary date occurs, which has allowed the Facility to decrease the liability that is carried on its balance sheet.

**Service Revenue** - The Facility's principal activity is operating a long-term healthcare facility for the elderly. Revenue is derived from participation in the Medicaid and Medicare programs, as well as from private-pay residents. Amounts earned under the Medicaid and Medicare programs are subject to review and audit by the third-party payors and make up a significant portion of revenue earned during each year as follows:

	Percent	
	2008	2007
Percent of revenue:		
Medicaid	62	55
Medicare	23	23

The payment methodology and amounts earned related to these programs are based on cost and clinical assessments that are subject to review and final approval by Medicaid and Medicare. Any adjustment that is a result of this final review and approval will be recorded in the period in which the adjustment is made. In the opinion of management, adequate provision has been made for any adjustments that may result from such third-party review.



# Manistee County Medical Care Facility

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## Notes to Financial Statements September 30, 2008 and 2007

### **Note 1 - Nature of Business and Significant Accounting Policies (Continued)**

Services rendered to Medicare program beneficiaries are paid at prospectively determined rates based upon clinical assessments completed by the Facility that are subject to review and final approval by Medicare.

Medicaid reimburses the Facility for resident routine service costs, on a per diem basis, prospectively determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoings. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**Net Assets** - Net assets of the Facility are classified in two components. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation, and reduced by any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are the remaining net assets that do not meet the definition of invested in capital. Cash and investments have been designated by the Facility's board for various purposes as disclosed in Note 5. Designated funds remain under the control of the Board, which may, at its discretion, later use the funds for other purposes.

### **Note 2 - Deposits and Investments**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Facility is required to hold all cash or investments under the county treasurer. The County is responsible for adopting an investment policy to be in accordance with Public Act 196 of 1997.

# Manistee County Medical Care Facility

## Notes to Financial Statements September 30, 2008 and 2007

### Note 2 - Deposits and Investments (Continued)

Because the Facility's cash and investments are limited to bank deposits held by the County, they are primarily subject to custodial credit risk, which is examined in more detail below:

**Custodial Credit Risk of Bank Deposits** - Custodial credit risk is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. The Facility does not have a specific deposit policy for custodial credit risk. The federal depository insurance coverage pertains to all of the deposits of the County; hence, the specific coverage pertaining to the Facility's deposits is not determinable.

### Note 3 - Due from County

The amount due from the County consists of the Millage Fund established to collect property taxes and pay maintenance of effort for the Facility. The Facility has a 0.50 mill levy for maintenance of effort (MOE). The taxes are levied on December 1 of each year. On February 28 of each year, the taxes collected are transferred to the Millage Fund. MOE is a county obligation to the State of Michigan. Every month, the County receives a bill from the State of Michigan for each Medicaid resident day approved by the State during that month. The County pays the MOE directly to the State from the Millage Fund. After all MOE payments are made, the excess property tax revenue at September 30 is transferred to the Facility's Operating Fund and set aside by the Manistee County Department of Human Services Board for future capital purchases.

### Note 4 - Resident Accounts Receivable

The details of resident accounts receivable are set forth below:

	2008	2007
Resident accounts receivable	\$ 1,290,352	\$ 1,267,411
Less allowance for uncollectible accounts	(80,000)	(80,000)
Net resident accounts receivable	<u>\$ 1,210,352</u>	<u>\$ 1,187,411</u>

The Facility provides services without collateral to its residents, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from residents and third-party payors is as follows:

	Percent	
	2008	2007
Medicare	32	41
Medicaid	46	37
Other payors	22	22
Total	<u>100</u>	<u>100</u>

# Manistee County Medical Care Facility

## Notes to Financial Statements September 30, 2008 and 2007

### Note 5 - Assets Limited as to Use

Assets limited as to use consist of deposits held at the County and are designated for the following:

	2008	2007
By Manistee County Department of Human Services Board:		
For future capital purchases	\$ 1,969,027	\$ 2,189,146
For funded compensated absences	160,880	154,362
For various future expenditures	70,157	88,023
Total assets limited as to use	<u>\$ 2,200,064</u>	<u>\$ 2,431,531</u>

### Note 6 - Property and Equipment

The cost of capital assets and related depreciable lives for September 30, 2008 are summarized below:

	2007	Additions	Transfers	Retirements	2008	Depreciable Life - Years
Building and improvements	\$ 3,843,655	\$ 62,552	\$ -	\$ -	\$ 3,906,207	10-40
Equipment	1,240,733	88,055	-	-	1,328,788	5-20
Total	5,084,388	150,607	-	-	5,234,995	
Less accumulated depreciation:						
Building and improvements	1,638,736	163,189	-	-	1,801,925	
Equipment	921,879	81,504	-	-	1,003,383	
Total	2,560,615	244,693	-	-	2,805,308	
Net carrying amount	<u>\$ 2,523,773</u>	<u>\$ (94,086)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,429,687</u>	

The cost of capital assets and related depreciable lives for September 30, 2007 are summarized below:

	2006	Additions	Transfers	Retirements	2007	Depreciable Life - Years
Building and improvements	\$ 3,709,107	\$ 134,548	\$ -	\$ -	\$ 3,843,655	10-40
Equipment	1,131,596	109,137	-	-	1,240,733	5-20
Total	4,840,703	243,685	-	-	5,084,388	
Less accumulated depreciation:						
Building and improvements	1,560,818	77,918	-	-	1,638,736	
Equipment	765,507	156,372	-	-	921,879	
Total	2,326,325	234,290	-	-	2,560,615	
Net carrying amount	<u>\$ 2,514,378</u>	<u>\$ 9,395</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,523,773</u>	

# Manistee County Medical Care Facility

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## Notes to Financial Statements September 30, 2008 and 2007

### Note 7 - Retirement Benefits

**Plan Description** - The Facility participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Facility through the County of Manistee. The Facility provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplemental information for MMERS. That report may be obtained by writing to MMERS at 447 North Canal Road, Lansing, Michigan 48917. At December 31, 2007, the date of the most recent actuarial valuation, the Facility membership consisted of 63 retirees and beneficiaries currently receiving benefits, 25 terminated employees entitled to benefits but not yet receiving them, and 141 current active employees.

**Funding Policy** - The obligation to contribute to and maintain the system for covered employees was established in the Manistee County Pension Plan, as amended January 1, 1985, and requires a contribution from the Facility equal to the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The Facility's contributions to the plan for the years ended September 30, 2008, 2007, and 2006 were \$514,075, \$503,965, and \$466,730, respectively.

**Annual Pension Cost** - The County's annual pension cost was \$1,131,750, \$1,014,849, and \$869,955 for the years ended September 30, 2008, 2007, and 2006, respectively. The Facility's annual pension cost was \$502,536, \$440,223, and \$342,345 for the years ended September 30, 2008, 2007, and 2006, respectively. The Facility's actual annual contribution of \$514,075 was more than the annual required contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2007 using the entry age normal cost funding method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) no cost of living adjustments. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period.

The County's actuarial liability exceeds the actuarial value of net assets available for benefits by \$7,130,234 and \$5,756,712 (the Facility's liability was \$2,811,041 and \$2,208,312) as of December 31, 2007 and 2006, respectively. Due to the significant market declines subsequent to the date of the actuarial report, it is expected the liabilities identified in this note will increase as the value of assets held by the plan will suffer significant valuation decreases.

# **Manistee County Medical Care Facility**

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## **Notes to Financial Statements September 30, 2008 and 2007**

### **Note 8 - Risk Management**

The Facility is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Facility has purchased commercial insurance for malpractice and general liability claims, workers' compensation, and employee medical benefit claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Facility is insured against potential professional liability claims under an occurrence-basis policy, whereby all claims resulting from incidents that occur during the policy period are covered up to insured limits, regardless of when the claims are reported to the insurance carrier. There are no known outstanding or pending claims at September 30, 2008 and 2007.

### **Note 9 - Medicaid Quality Assurance Assessment Program**

The Facility's Medicaid revenue has been partially funded by a program called Quality Assurance Assessment Program (QAAP). During the fiscal year ended September 30, 2008, the Facility received Medicaid revenue related to QAAP of approximately \$890,000 and was assessed a "provider tax" of approximately \$700,000 based on the number of non-Medicare resident days of service provided during the base year. During the fiscal year ended September 30, 2007, the Facility received Medicaid revenue related to QAAP of approximately \$890,000 and was assessed a retroactive "provider tax" of approximately \$650,000 based on the number of non-Medicare resident days of service provided during the base year (two years prior).

## **Additional Information**

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To the Manistee County Department of  
Human Services Board  
Manistee County Medical Care Facility

We have audited the financial statements of Manistee County Medical Care Facility as of September 30, 2008 and 2007. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

December 10, 2008

# Manistee County Medical Care Facility

## Schedule of Net Service Revenue

	Year Ended September 30	
	2008	2007
<b>Skilled Nursing Services</b>		
Daily net room revenue:		
Medicaid	\$ 6,414,508	\$ 6,007,440
Medicare	1,279,395	1,137,630
Private pay and other	1,363,800	1,403,925
Total daily net room revenue	9,057,703	8,548,995
Ancillary revenue:		
Pharmacy	242,371	249,970
Therapy services	565,383	673,540
Other ancillary services	67,676	77,896
Total ancillary revenue	875,430	1,001,406
Total skilled nursing services revenue	9,933,133	9,550,401
<b>Revenue Deductions</b>		
Provision for contractual discounts	(975,584)	(781,283)
Bad debt expense	(6,503)	(57,627)
Total revenue deductions	(982,087)	(838,910)
<b>Net Service Revenue</b>	<b>\$ 8,951,046</b>	<b>\$ 8,711,491</b>



# Manistee County Medical Care Facility

## Schedule of Operating Expenses

	Year Ended September 30			
	2008			2007
	Salaries	Other	Total	Total
Fringe benefits	\$ -	\$ 1,737,484	\$ 1,737,484	\$ 1,557,873
Administration	387,665	338,754	726,419	685,235
Plant operations	245,721	177,755	423,476	375,198
Utilities	-	468,492	468,492	385,819
Laundry	106,093	31,677	137,770	145,686
Housekeeping	180,859	42,819	223,678	224,813
Dietary	509,320	358,669	867,989	759,939
Medical records	-	20,000	20,000	20,000
Social services	154,334	-	154,334	119,693
Diversional therapy	236,868	18,467	255,335	247,520
Other ancillary services	-	47,728	47,728	53,518
Therapy services	103,039	238,147	341,186	375,923
Pharmacy	-	202,920	202,920	220,925
Nursing	3,603,419	395,867	3,999,286	3,727,436
Provider tax expense	-	671,912	671,912	645,551
Depreciation and amortization	-	244,693	244,693	234,290
2008 total	<u>\$ 5,527,318</u>	<u>\$ 4,995,384</u>	<u>\$ 10,522,702</u>	
2007 total	<u>\$ 5,112,998</u>	<u>\$ 4,666,421</u>		<u>\$ 9,779,419</u>

December 10, 2008

To the Board Members  
Manistee County Medical Care Facility

We have audited the financial statements of Manistee County Medical Care Facility (the "Facility") for the year ended September 30, 2008 and have issued our report thereon dated December 10, 2008. Professional standards require that we provide you with the following information related to our audit, which is divided into the following sections:

Section I - Communications Required Under SAS 114

Section II - Communications Required Under SAS 112

Section III - Other Recommendations and Related Information

Section I includes information that current auditing standards require independent auditors to communicate to those individuals charged with governance. We will report this information annually to the board members of Manistee County Medical Care Facility.

Section II includes any deficiencies we observed in the Facility's accounting principles or internal controls that we believe are significant. Current auditing standards require us to formally communicate annually matters we note about the Facility's accounting policies and internal controls.

Section III presents recommendations related to internal controls, procedures, and other matters noted during our current year audit. These comments are offered in the interest of helping the Facility in its efforts toward continuous improvement, not just in the areas of internal control and accounting procedures, but also in operating efficiency and effectiveness.

We would like to take this opportunity to thank the Facility's staff for the cooperation and courtesy extended to us during our audit.

This report is intended solely for the use of board members and management of Manistee County Medical Care Facility and is not intended to be and should not be used by anyone other than these specified parties.

To the Board Members  
Manistee County Medical Care Facility

We welcome any questions you may have regarding the following communications, and we would be willing to discuss any of these or other questions that you might have at your convenience.

Very truly yours,

**Plante & Moran, PLLC**

A handwritten signature in black ink, reading "J. Eric Conway". The signature is written in a cursive style with a large, stylized initial "J".

J. Eric Conway, CPA, FHFMA

## **Section I - Communications Required Under SAS 114**

### **Our Responsibility Under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated August 26, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of Manistee County Medical Care Facility (the "Facility"). Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in the letter about planning matters dated November 12, 2008.

### **Significant Audit Findings**

#### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Manistee County Medical Care Facility are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008.

We noted no transactions entered into by the Facility during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was the calculation of the allowance for doubtful accounts.

Management's estimate of the allowance for doubtful accounts is based on the estimated collectability of accounts receivable outstanding at September 30, 2008. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements with the exception of the passed adjustments shown on Attachment #1.

### ***Disagreements with Management***

For the purpose of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### ***Management's Representations***

We have requested certain representations from management that are included in the management representation letter dated December 10, 2008.

### ***Management's Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Facility's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### ***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Facility's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our retention.

## **Section II - Communications Required Under SAS 112**

In planning and performing our audit of the financial statements of Manistee County Medical Care Facility (the "Facility") as of September 30, 2008 and for the year then ended, in accordance with auditing standards generally accepted in the United States of America, we considered the Facility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control:

- The September 30, 2008 financial statements of the Facility do not present a management's discussion and analysis, which would be an analysis of the financial performance for the years ended September 30, 2008 and 2007. The Governmental Accounting Standards Board has determined that this is necessary to supplement, although not required to be a part of, the basic financial statements.

### **Section III - Other Recommendations and Related Information**

The following recommendations are based on observations made during the course of our audit. Our hope is to provide the board of directors and management with relevant, value-added recommendations. Some of these recommendations may very well have been considered by Manistee County Medical Care Facility (the "Facility") in the past but are included for the sake of completeness:

#### **Cash Reconciliation Process**

When reviewing the cash reconciliation process, it was noted that as of September 30, 2008, there were miscellaneous unreconciled differences between the Manistee County general ledger for cash and the Facility's cash balances. The differences can be found on the attached proposed adjustment listing, reference #A1. It is recommended the differences be reconciled going forward. Also, it was noticed that the Facility earns interest income and pays banking fees on the general checking account it maintains. These funds should be held at Manistee County rather than by the Facility. It is recommended the Facility work with the Manistee County treasury office to correct this issue. The amount of interest income and banking fee expense is listed on the attached proposed adjustment listing, reference #A2.

#### **Steam Charge Receivable Reconciliation**

When reviewing the reconciliation of steam charges incurred, steam charges billed, and payments received, it was noted the balance was not clearly reconciled to the accounts receivable aging balance as of September 30, 2008. The amount of the receivable balance recorded was within a tolerable difference to the actual receivable calculated. It is recommended the reconciliation and billing process be reviewed and adjusted to provide a more accurate process of tracking the revenue and receivable balance.

#### **Monitoring of Accounts Receivable and Collection Process**

During our audit, it was noted that the accounts receivable aging continues to have a significant amount of resident charges in older aging categories. The days in accounts receivable have not improved in recent history and with the difficult economic conditions, it could become difficult to collect on those aging receivables. We recommend that periodic or monthly meetings are held with the billing, accounting, and other management team members to discuss the accounts receivable aging, collection efforts that are being pursued, and if any assistance is needed in the collection efforts. It is also suggested that the Facility have its policies and procedures related to billing and collections reviewed to ensure the departments are functioning efficiently.

#### **Contributions to Pension Plan**

In review of the actuarial report from the Municipal Employees' Retirement System of Michigan dated December 31, 2007, it was noted that the Facility has a large deficit between the liability for future benefits and the assets available to cover those liabilities. This deficit is expected to increase with the next actuarial report to be dated December 31, 2008 due to the recent investment market declines. Due to the structure of the Medicaid rate and the fact the Facility has excess funds available, it is recommended that the Facility begin funding the pension plan with the highest allowable contributions to lower the deficit.

### **Medicare Cost Report Audits**

There has been a recent announcement that Medicare will begin performing claim audits on paid claims. The audits will cover periods after September 30, 2007. In pilot states where Medicare has already begun these audits, facilities have been experiencing significant audit adjustments resulting in amounts withheld from current Medicare remittances. The Facility has a reserve on its balance sheet for approximately \$195,000 as of September 30, 2008 to cover potential audit adjustments. It is recommended that this amount be evaluated going forward to see if any adjustments should be made.

### **Use of an Advisor Committee to Evaluate Future Capital Expenditures**

Through discussions with the Facility's management, it was noted that there is interest in expansion of the Facility. Other senior care providers throughout the state have utilized advisor committees to evaluate the feasibility of expansion and the options available. Plante & Moran, PLLC can also offer consulting related to construction through Plante & Moran CRESA.



## Attachment #I

Client: **Manistee County Medical Care Facility**

Y/E: **September 30, 2008**

### **SUMMARY OF UNRECORDED POSSIBLE ADJUSTMENTS**

The pretax effect of misstatements and classification errors identified would be to increase (decrease) the reported amounts in the financial statement categories identified below:

Ref. #	Description of Misstatement	Current Assets	Long-term Assets	Current Liabilities	Long-term Liabilities	Equity	Revenue	Expenses	Pretax Income
<b>KNOWN MISSTATEMENTS:</b>									
A1	Unreconciled difference in cash balance between the Facility and the County	\$ 19,710						\$ (19,710)	\$ 19,710
A2	Relates to unrecorded interest income and banking fees	8,575					\$ 11,531	2,956	8,575
<b>ESTIMATE ADJUSTMENTS:</b>									
B1									
B2									
<b>IMPLIED ADJUSTMENTS:</b>									
C1									
C2									
		-	\$ -	\$ -	\$ -	\$ -	-	-	-
	Combined effect - Before income taxes	28,285	-	-	-	-	11,531	(16,754)	28,285
	Effect of income taxes	-	-	-	-	-	-	-	-
	Total	<u>\$ 28,285</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,531</u>	<u>\$ (16,754)</u>	<u>\$ 28,285</u>